

UNITED STATES SENATOR • IOWA  
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RANKING MEMBER • SENATE COMMITTEE ON FINANCE

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Grassley Seeks Answers on Red Cross' 9-11 Relief

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today received a response from the Red Cross to his May 7 letter asking questions about how the charity intends to deliver Sept. 11 monetary relief judiciously and quickly to qualified recipients. Grassley's inquiry came after many of his constituents expressed concern over the Red Cross' delay in distributing their donations for victims' relief.

Grassley's May 7 letter follows.

May 7, 2002

Via Regular Mail and Telefax: (202) 783-3432

Mr. Harold Decker  
Interim Chief Executive Officer  
American Red Cross  
430 Seventeenth Street, NW  
Washington, D.C., 20006

Dear Mr. Decker:

As Ranking Member of the Senate Committee on Finance (Committee), I am committed to help ensure that U.S. charities prioritize accountability to maximize their financial relief to those in need. More than seven months have passed since the terrorist attacks of September 11, 2001 ("9-11"), and America has rallied to support the victims of these tragic events by donating more than \$1 billion to hundreds of charities. Nearly 40% of American families directed their help and compassion through the American National Red Cross (Red Cross). As of March 11, 2002, the Red Cross received an unprecedented \$930 million in contributions, \$558 million of which it has already disbursed, while the remaining hundreds of millions earn interest in the bank. Today I write to better understand the Red Cross' policy and operations to deliver disaster relief, particularly 9-11 monetary relief, judiciously and with due speed to qualified recipients. I am also interested to learn about the transparency of your organization in terms of financial reporting requirements for the Red Cross' national headquarters (National), the 36 regions, and the approximate 1,016 chartered chapters.

As to my first query, I have heard colleagues in Congress and constituents in Iowa voice concerns about how the Red Cross has solicited donations for its relief efforts and how it has put those funds to use. Some of these critics have stated that in major fund-raising drives, the Red Cross has been unclear about how it will use donations. Two months after the 9-11 attacks, *The Washington Post* reported, "When disaster strikes, the Red Cross launches emotional appeals to tap into a huge charitable outpouring. But if a donor does not specify that a contribution must stay in a community, the Red Cross might put it into a fund for other relief efforts." (November 19, 2001; Page A01.) In the wake of 9-11, the Red Cross was criticized for not using all of the funds raised in response to the attacks for that relief effort but for other, long-term projects. Fortunately, approximately two months into its 9-11 fund-raising, the Red Cross changed its position and promised that it would use its Liberty Disaster Relief Fund (Liberty Fund) as a separate, segregated account to hold and disburse funds related to the 9-11 attacks, its aftermath, and other terrorist events. I applaud this decision as well as the decision to have former U.S. Senate Majority Leader George Mitchell serve as the Liberty Fund's Independent Overseer. Also, I congratulate the Red Cross on receiving an unqualified opinion on Liberty Fund receipts and disbursements at National as of October 31, 2001, and no findings of a material weakness in internal controls.

In addition, I believe that accountability is critical to any charity's continued operation since transparency instills public confidence that taxpayer dollars are used wisely. The Red Cross is required by statute to submit an annual report to the Secretary of Defense (Secretary) regarding its activities during the fiscal year, including a complete, itemized report of all receipts and expenditures. Although this financial reporting is mandatory, I have heard that outside audits of Red Cross chapters are rare and that not all financial reporting by the Red Cross' chapters to National is required. According to *The New York Times*, "Although the Red Cross is effectively a public trust, it has never been a particularly transparent organization, not even internally." (December 23, 2001; Section 6, Page 32). Perhaps for this reason, the Red Cross has been characterized as a "turf battle" between its chapters and National, "between veterans who believe their 'mission' is good deeds and newcomers who believe theirs is good management and between the president and a board so big that Decker said that his first impression was 'politburo.'" (*Id.*) Such inattention by National to the financial accountability of its chapters may have led to accounting irregularities such as in Hudson County, New Jersey, where the chapter director and bookkeeper were indicted on charges of stealing \$1 million in Red Cross funds. Accordingly, I am interested to learn about the Red Cross' financial reporting requirements to ensure accountability at the national, regional, and chapter levels.

To encourage the spirit of patriotic giving to the Red Cross, I appreciate your responses to the following questions. For your convenience, I have divided these questions into categories.

#### "9-11" Relief

1. To date, please state the total amount of money that the Red Cross has received in pledges in response to the 9-11 terrorism, the amount collected, the amount distributed, and plans for any remainder funds that are not distributed. Also, identify any subset of this relief (*i.e.*, for the World Trade Center victims) and any funds relating to same (*i.e.*, the Liberty Fund). For all such subsets and/or funds, please state the amount of money received in pledges, the amount collected, the amount distributed, any timetables for distribution, and plans for any remainder funds that are not distributed.

2. Please state whether any donations or gifts-in-kind received by the Red Cross in response to the 9-11 attacks have been or will be used to cover any administrative expense. If so, please explain how such use of those funds complies with the *Principles and Rules for Red Cross' Disaster Relief* that prohibits using cash gifts to cover administrative expenses included in its ordinary budget.
3. Other than administrative expenses, please state whether any donations or gifts-in-kind received by the Red Cross in response to the 9-11 attacks have been or will be used for any expense unrelated to disaster relief. If so, please identify the expense and explain how such use of those funds complies with the *Principles and Rules for Red Cross' Disaster Relief (No. 25)*, "Gifts sent to a National Society may only be used for the purpose designated and will serve in the first place to give direct assistance to the victims."
4. Please state what amounts of money received between 9-11 and the present will not be solely allocated to 9-11 relief funds such as the Liberty Fund. Also, please state where this money will be allocated and how it will be used.
5. Please describe the criteria for distributing money to any applicant for 9-11 relief. Also, describe the method for distributing these funds (i.e., any paperwork required from relief applicants). Given that these applicants are from different regions (i.e., New York, New Jersey, Virginia, Pennsylvania, etc.), I appreciate your including specific criteria and distribution methods per locality in your response.
6. With particular regard to the Liberty Fund, please state the amount of money received in pledges, the amount collected, the amount distributed, any timetables for distribution, and plans for any remainder funds that are not distributed. Also, identify how many individuals or families have received or are expected to receive funds and the average amount for each individual or family.
7. The Red Cross has stated that it will hold overhead costs for the Liberty Fund at 9%. Please explain how you intend to do so.
8. It is my understanding that March 8, 2002, was the Red Cross' cut-off date for applications for relief based on financial need related to the World Trade Center attacks. Considering the great amount of money raised in response to these attacks, please explain how the Red Cross arrived at that date. Also, please explain whether any exceptions will be made for individuals who request aid after that date, to include the criteria that will be used for making any such exception. Moreover, please explain what the Red Cross intends to do with any funds that it cannot distribute. Further, state whether the Red Cross has implemented similar cut-off dates for relief applicants related to the Pentagon attacks and for the 9-11 Pennsylvania plane crash, and explain the rationale for these policies.
9. Please describe how the Red Cross is coordinating with federal and state agencies, including any state's Attorney General's office, and with other relief organizations to ensure the fair and timely distribution of charitable donations raised in response to the 9-11 attacks to their

intended recipients. Please include in your response the name and address of those organizations with whom you are coordinating.

10. I have heard of several cases where the Red Cross mistakenly gave 9-11 relief money to con artists. In one case, the Red Cross gave \$272,800 to a Michigan man who invented a brother whom he said was killed in the World Trade Center attacks. (See Daily News, April 12, 2002; Page 24.) To prevent such future thefts of taxpayer donations to the Red Cross, describe how your organization is attempting to minimize waste, fraud, and abuse in the relief distribution process. Please include the following information in your response:
  - a. How the Red Cross is attempting to maintain the integrity of its employees and volunteers responsible for distributing money to the 9-11 relief victims.
  - b. How the Red Cross identifies fraud committed by a disaster relief applicant or a Red Cross employee or volunteer.
  - c. The number of 9-11 disaster relief applicants who received Red Cross funds but were not eligible for those funds, and the amount of money improperly paid out in this regard.
  - d. How the Red Cross attempts to reclaim funds improperly distributed.
11. Red Cross officials have stated that, in response to the rush of the American people to support its efforts with an unprecedented surge of generosity, it was enforcing stringent accounting measures at National and throughout the chapters to ensure stewardship of these funds. (Written statement for the New York State Assembly's hearing, "Charitable Funds Dedicated to the September 11, 2001 Attack on the World Trade Center," November 7, 2001.) Please describe the measures that the Red Cross has implemented in this regard, including information about internal and independent audits of National and the chapters as well as the results of the audits.

#### Disaster Relief Policies

12. Please describe any Red Cross policy about dispensing aid and disaster relief, and state whether the policy is the same for National, the regions, and the chapters. If not, explain the reason for any such difference.
13. Please identify any Red Cross policy relating to the amount of money to use for a particular disaster out of previously available funds versus the amount to use out of funds raised through an appeal relating to a specific disaster. If there is no such policy, please state whether decisions concerning the use of funds are made at the national, regional or chapter level, and explain why.
14. As to money raised for a specific disaster, please state whether any amounts not spent by the Red Cross on that disaster are reserved for future disasters and whether any amounts are reserved for administrative expenses. Also, identify any Red Cross policy relating thereto. If there is no such policy, state whether these decisions are made at the national, regional or chapter level and explain why.
15. After fires devastated parts of San Diego in 2001, the Red Cross chapter raised more than

\$400,000 for the victims but failed to distribute relief to them for many months thereafter. It is my understanding that outside auditors hired by National found that the chapter had failed to follow its own disaster relief plan, that services were not organized to ensure that victims' needs were adequately met, that press releases were misleading to donors, and that more than \$112,000 of the money donated for the victims were improperly spent on items such as a telephone system upgrade for the local Red Cross office. (See CBS, "60 Minutes," March 10, 2002.) Please explain what steps, if any, were taken by National in response to these findings to include any change in policy. Also, please state whether National instituted any disciplinary action against the individuals in the San Diego chapter who were responsible for the foregoing actions or for the release of an inaccurate and edited version of a national audit. If so, describe those actions. If not, explain why not.

16. In addition to the Liberty Fund established in response to the 9-11 attacks, please state whether the Red Cross has created a separate, segregated account to hold and disburse funds in response to any other disaster. If so, please identify those funds and explain why they were created. Also, please identify any criteria used by the Red Cross for creating such a fund and for the use of such funds. Further, state whether the Red Cross has received any complaints or inquiries regarding the use of any such funds and explain the nature of the complaints.

#### Donor Intent

17. Please describe the Red Cross' policy for ascertaining donor intent. For example, Red Cross has recently added language to its fund-raising appeals stating that donations would be used for "this and other disasters." Specifically, please explain how the Red Cross determines that a donor who gave money in the aftermath of a disaster, and particularly in response to a local fund-raising appeal, intends for the Red Cross to use the money for "other disasters," and state whether these determinations are made at the national, regional or chapter level.
18. Please explain how donors who contribute aid in connection with a disaster can find out how much money was raised in their area and how the Red Cross used their donated funds.
19. Please explain Red Cross procedure for responding to donor complaints at the national, regional, and chapter level. Also, please state whether a region or a chapter is required to report to National when it receives complaints. Further, for the past five years, please state the number of complaints related to the Red Cross' use of donations raised during a specific fund-raising appeal received against National, a region or a chapter, and describe the nature of the complaint and how National, the region or the chapter responded to same.
20. Please explain the recourse for a donor who disagrees with how National, a region or a chapter uses his or her donation. State whether this answer is different if the donor alleges that he or she was misled by Red Cross advertising, or that there was evidence of misuse of charitable resources, fraud or corporate waste. Further, identify the appropriate federal, state or local entity with jurisdiction to follow-up on these complaints.

#### Foreign Aid

21. Please state whether the Red Cross received any money from other Red Cross or Red Crescent Societies in response to the 9-11 attacks and, if so, state the amount and whether any such amount was made in cash. Also, please describe whether and how these gifts were handled in compliance with the "Principles and Rules for Red Cross' Disaster Relief." Further, state whether the Red Cross received any inquiries or complaints from other Red Cross or Red Crescent Societies regarding the use of any of these funds and, if so, describe the nature of any such complaint or inquiry.
22. Similarly, please state whether the Red Cross has received aid from other Red Cross or Red Crescent Societies in response to any other disaster. If so, please discuss on what bases these funds received, how they were handled, and if there were any complaints or inquiries regarding their use.

#### Organizational Structure

23. Please describe the Red Cross' organizational structure and the relationship between National, the regions, and the chapters. Please include the following information in your response:
  - a. Whether there is a hierarchical chain of command.
  - b. Whether the Red Cross' policies and procedures are standard throughout the organization or whether they are established at the regional or chapter level. If the latter, please identify the policies and procedures set by National and those set by the regions or chapters.
  - c. The types of decisions (i.e., day-to-day administration or personnel issues) made at the national level relating to the regions or chapters, and the types of decisions made at the regional or chapter level.
24. Please answer the following questions concerning the Red Cross' chapters:
  - a. State whether National provides money to the chapters for local emergencies or, alternatively, whether the chapters are responsible for their own fund-raising. If National provides money to a chapter for a local disaster, please describe the nature of the chapter's accountability to National regarding the use of the funds. Also, when a chapter raises money in its area, state whether any of that money is redirected to National, a region or to another chapter.
  - b. Describe the Red Cross' procedure for sanctioning any chapter, to include what action by a chapter will lead to a sanction by National and the type of sanction.
  - c. State whether the Red Cross' Board of Governors has revoked the charter of a chapter. If so, please describe the circumstances for the revocation and state whether the Red Cross disciplined any chapter officer or employee related to the revocation.
  - d. State whether each chapter has its own charter and bylaws and, if so, whether they are approved by National.
25. Regarding Red Cross officer compensation, I was surprised to learn that Dodie Rotherham, the current CEO of the Red Cross chapter in San Diego, earned \$309,000 (\$203,000 base salary and a \$109,000 bonus), the largest salary for any executive director of any Red Cross chapter in America. (Id.) Ms. Rotherham received these considerable funds despite her

chapter's decision to effectively resist a request by National for 10 months to disclose how it spent tens of thousands of dollars after the previously mentioned fire struck San Diego. To better understand your organization's compensation structure, please describe all Red Cross policies at the national, regional, and chapter levels relating to officer compensation, to include how salaries are set and reviewed and the nature and frequency of performance reviews. Also, produce a list stating the compensation of the top 50 highest paid National, regional, and chapter officers to include his or her salary as well as any benefit, expense, and allowance figures received for the past two years. Similarly, please identify any uniform qualification or performance standard for Red Cross officers at the national, regional or chapter level. Further, please explain the Red Cross' policy for hiring and firing its officers and employees.

### Budget

26. For the past five years, please describe the sources and amounts of the Red Cross' funding to include from any government entity as well as from taxpayers.
27. Please state the Red Cross' administrative budget and expenses for the last five fiscal years, and explain how the budget is determined. If there are separate budgets for the regions and the chapters, please explain how they are determined and state whether they are approved or reviewed by National.
28. To what extent are the administrative expenses of a region or a chapter paid from funds raised nationally or locally? To the extent that nationally raised funds are used for regional or chapter administrative expenses, please explain how National decides to allocate the amount of funds and to whom.

### Accountability

29. Explain how National holds the regions and the chapters financially accountable. Are there guidelines for uniform record keeping and financial reporting by the regions and the chapters? Are the regions and the chapters required to give periodic financial or other reports to National? If not, explain why not. If so, state what information is contained in these reports and how often these reports are required to be filed, and describe any penalty for failing to file in a timely, complete, and accurate manner. Also state the general nature of the information contained in these reports and whether these reports are reviewed by Red Cross officials at National or by an independent auditor.
30. Generally speaking, federal and state laws require charitable organizations to file forms accounting for their use of funds. The Red Cross is required by statute to submit an annual report to the Secretary on its activities during the fiscal year ending June 30, including a complete, itemized report of all receipts and expenditures. The statute also requires the Secretary to audit the report and submit a copy of the audited report to Congress. (See 36 USC § 300110.) I question the effectiveness of this reporting mechanism in terms of informing Congress and, importantly, the public about the Red Cross' activities to improve its accountability. For example, I was surprised to learn that a congressional affairs specialist

at the Department of Defense (DoD) was altogether unaware of any such reporting requirement. Given these concerns, please explain whether you believe that the Red Cross' annual filing requirement is sufficient to account for its finances and other activities and, if so, why. Also, state whether you believe that the Red Cross should provide additional financial reporting or other information to any other federal or any state agency. Further, state whether National or any of the regions or the chapters has been regulated in any way by a state or local official. If so, please explain your response to identify the state, under what law or regulation, and under what circumstances.

31. Please describe the Red Cross' procedures for preparing the annual report to include the following information:
  - a. Identify the person or office responsible for preparing the report.
  - b. Identify the person or office who reviews the report before it is submitted to DoD.
  - c. State whether there are any aspects of the Red Cross' operations that are not included in the report. If so, identify those operations and explain why they are not included in the report.
  - d. State whether the activities of the regions and the chapters are included in the report. If so, explain how National verifies the information received from the regions and the chapters for accuracy. If not, explain why not and include in your response an explanation of how National is able to prepare an accurate report for DoD without such information.
  - e. State whether the report constitutes a complete, itemized report of all receipts and expenditures as required by 36 U.S.C. § 300110. If not, explain why not.
32. Please explain the procedure after Red Cross submits its annual report to DoD to include the following information:
  - a. Explain how DoD conducts the audit and the Red Cross' participation in this regard.
  - b. State whether the audited report reflects all of the activities of National and the regions and chapters. If not, describe the types of activities and/or information that is not included.
  - c. State whether there has ever been any follow-up by Congress once the audited report is submitted, and describe the nature of the follow-up and the Red Cross' response.
33. The Red Cross is required by statute to reimburse the Secretary each year for auditing its accounts. (36 U.S.C. § 300110.) State the amount paid by the Red Cross to the Secretary for the past five years.
34. Other than the Secretary's audit of the Red Cross' annual report, state whether National or any region or chapter has been audited by any federal or state agency in the past 10 years and, if so, please state the findings.
35. Under the Red Cross' congressional charter, the President appoints eight of the Red Cross' 50 board members, who are senior government officials of departments and agencies including the Armed Forces, and designates one of these eight governors to act as the Red Cross' principal officer. Of the remaining board members, 30 are elected by the chapters and 12 are elected by the board as members-at-large. It has been reported that since the chapters

nominate, and largely influence, two-thirds of the 50-member national board, “chapters are able to operate in a semi-autonomous fashion with little oversight from the national office.” (*The San Diego Union-Tribune*, December 23, 2001; Page A-1.) Please explain whether you believe that the Red Cross’ present management structure provides the organization’s President with sufficient management discretion and flexibility, particularly as it relates to ensuring financial accountability and to disciplining regions, chapters or individuals who violate any law, regulation or Red Cross policy. Also, please state whether there have been any discussions at the Red Cross about restructuring the board to make it more responsive to national interests or to any other interests. If so, please describe the proposed changes and interests.

36. As you are aware, the Red Cross is a humanitarian organization that is guided by its congressional charter (see 36 USC §§ 300101 et. seq.) and the Fundamental Principles of the International Red Cross Movement. Congress has reserved the right to amend or repeal the statutory provisions relating to the Red Cross. To determine whether there is a need to amend the Red Cross’ congressional charter or for other legislation to assist the Red Cross in fulfilling its mission, please state whether you believe that present federal law enables your organization to fully perform its responsibilities. Please specify in your response any legislative authority that you recommend for Congress to consider to improve the Red Cross’ ability to fulfil its responsibilities.

#### Endowment Fund

37. Please state the present cash value of the Red Cross’ endowment fund and your organization’s short-term and long-term goals for its use.
38. Please state whether any financial contributions received in connection with the 9-11 attacks will be incorporated into the endowment fund and, if so, state the amount and explain why. Similarly, state whether any moneys received through other Red Cross fund-raising efforts will be incorporated into this fund and, if so, state the amount and explain why.

#### Other Matters

39. Please produce the following:
- a. The “Handbook of the International Red Cross and Red Crescent Movement.”
  - b. The Red Cross’ Liberty Fund plan released on January 31, 2002.
  - c. Quarterly financial reports of the Liberty Fund’s disbursement of funds.
  - d. Resolution number “XL” of the XVIIth International Red Cross Conference relating to the “special facilities” that governments are requested to grant to their National Societies for carrying out their tasks.

Mr. Harold Decker  
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Thank you for your cooperation. Given the timeliness of this information, I appreciate your providing me with your complete responses by June 14, 2002. Please do not hesitate to contact Faith Cristol of my Committee staff at (202) 224-5315 with any questions.

Sincerely,

Charles E. Grassley  
Ranking Member

CC Via Hand Delivery:

The Honorable Max Baucus, Chairman, Senate Committee on Finance

CC Via Telefax:

The Honorable Donald H. Rumsfeld, Secretary of Defense, Department of Defense:  
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